

# **Annual Performance Plan 2000**

## ***MISSION STATEMENT***

**OUR CHARGE IS TO FOSTER THE SAFETY AND SOUNDNESS OF  
FEDERALLY INSURED CREDIT UNIONS AND TO BETTER ENABLE THE  
CREDIT UNION COMMUNITY TO EXTEND CREDIT FOR PRODUCTIVE  
AND PROVIDENT PURPOSES TO ALL AMERICANS, PARTICULARLY  
THOSE OF MODEST MEANS.**

**WE STRIVE TO ENSURE THAT CREDIT UNIONS ARE EMPOWERED TO  
MAKE THE NECESSARY BUSINESS DECISIONS TO SERVE THE DIVERSE  
NEEDS OF THEIR MEMBERS AND POTENTIAL MEMBERS. WE DO THIS  
BY ESTABLISHING A REGULATORY ENVIRONMENT THAT ENCOURAGES  
INNOVATION, FLEXIBILITY, AND CONTINUED FOCUS ON ATTRACTING  
NEW MEMBERS AND IMPROVING SERVICE TO EXISTING MEMBERS.**

***NCUA--Working with the cooperative credit union system to provide  
service to all segments of American society and to enable credit union  
members to thrive in the 21<sup>st</sup> century.***

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## SECTION I

### EXECUTIVE SUMMARY

The National Credit Union Administration (NCUA) is an independent federal agency established by Congress on March 10, 1970, to regulate federal credit unions and to oversee the safety and soundness of federally insured credit unions. A board of three members appointed by the President and confirmed by the Senate provides agency oversight.

In addition to chartering and regulating federal credit unions, NCUA insures member accounts in 6,566<sup>1</sup> federal credit unions and 4,062 state-chartered credit unions. Thus, the NCUA Board is also responsible for the management of the National Credit Union Share Insurance Fund (NCUSIF) which was created on October 19, 1970. The NCUSIF currently insures approximately \$335.6 billion in member share deposits.

During 1999, credit unions continued to thrive—assets and capital were at record levels, while the number of problem credit unions remained low. The credit union insurance fund also remains strong. For the fifth consecutive year, the NCUSIF returned a dividend to credit unions on their deposits in the fund.

NCUA established fifteen performance goals for 1999<sup>2</sup>. All but two goals were met:

- **Performance Goal 3.1a:** *Reduce by 10% the number of low-income designated credit unions with net capital of less than 6%, and*
- **Performance Goal 3.2b:** *Increase the number of federal credit union members served by 3%.*

An additional goal was partially met.

- **Performance Goal 4b:** *95% of complaints, concerning consumer protection laws, received by regional office are initially responded to within 10 days. 90% of complaints are resolved within 90 days.*

The March 2000 Performance Report will provide a final update on these goals (and the others) and will include information on why the goals were not met and what remedial action is planned.

Although the previous strategic plan focused attention on important issues, and we were successful in the achieving the results set out in that plan, challenges and changes credit

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<sup>1</sup> Figures in this paragraph are as of December 31, 1999.

<sup>2</sup> NCUA operates on a calendar, rather than a fiscal, year basis. The 1999 plan was for January 1, 1999 through December 31, 1999. This plan is for the time frame January 1, 2000 through December 31, 2000.

unions face in the future compel a new look at NCUA and its responsibility to credit unions and their members. Thus, NCUA has a new strategic plan for 2000-2005.

As a result of the planning process, the NCUA Board and NCUA staff have concluded that NCUA must broaden its view of safety and soundness to include issues related to credit union development, competitiveness, and ability to serve members. This will be reflected in regulatory policy, examination programs, and other activities.

The first year of the six year plan, 2000, is a transition year. Systems, policies, programs and structure must be put in place to support the initiatives that will be undertaken in later years. For 2000, efforts and resources are focused on the more traditional strategic goal #1, "Promote a system of financially sound, well managed federally insured credit unions able to withstand economic volatility." This will always be one of NCUA's primary strategic goals. In implementing later years of the strategic plan, NCUA will address its resource needs to fully execute all elements of the strategic plan.

For 2000, NCUA plans to devote a staff of 1,049.07 and a budget of \$135.00 million, ( a 10.64% budget increase over 1999) to achieving five strategic goals. NCUA's strategic goals, the outcomes we hope to achieve, and our specific performance goals are as follows:

**Strategic Goal #1: Promote a system of financially sound, well managed federally insured credit unions able to withstand economic volatility.**

*Outcome Goal 1.1: Ensure that federally insured credit unions are financially healthy.*

**Performance Goal 1.1a:** Reduce the percentage of federally insured credit unions with return on assets of less than 0.5% and net worth of less than 6% to 1.28% of credit unions. (Include only credit unions chartered longer than ten years.)

**Performance Goal 1.1b:** Reduce the percentage of federally insured credit unions with net worth of less than 6% to 2.50% of federally insured operating credit unions.

*Outcome Goal 1.2: Ensure that credit union management is aware of and prepared to meet potential financial challenges.*

**Performance Goal 1.2:** Reduce the percentage of those federally insured credit unions that remain CAMEL code 3 for more than 36 months to 4% of operating federally insured credit unions.

*Outcome Goal 1.3: Maintain the healthy performance of the National Credit Union Share Insurance Fund.*

**Performance Goal 1.3a:** Maintain an equity ratio of 1.3%.

**Performance Goal 1.3b:** The ten year average for insurance loss ratio stays below \$0.30 per \$1,000.

## **Strategic Goal #2: Ensure that credit unions are prepared to safely integrate financial services and emerging technology in order to meet the changing needs of their members.<sup>3</sup>**

*Outcome Goal 2.1: Ensure that credit unions have access to information and training about emerging financial service technology and use this information to integrate innovative technology planning, contracting, deployment and support within the credit union framework.*

**Performance Goal 2.1a:** Increase by 25% the number of credit unions offering interactive services.

**Performance Goal 2.1b:** <sup>4</sup> X% of credit unions have adequate technical plans in place.

**Performance Goal 2.1c:** Increase the number of credit unions offering bill payment and presentment services by x%.

*Outcome Goal 2.2: Ensure that credit unions understand emerging security threats and are prepared to deal with them.*

**Performance Goal 2.2:** Surety bond claims due to security violations no more x.

*Outcome Goal 2.3: Promote public trust in credit union deployment of emerging technology.*

**Performance Goal 2.3:** Increase the number of credit union members using interactive services by x%.

## **Strategic Goal#3: Create a regulatory environment that will facilitate credit union innovation to meet member financial service expectations.**

*Outcome Goal 3.1: Assist credit unions in understanding the impact of changing demographics and in positioning themselves to address changing member expectations.*

**Performance Goal 3.1a:** The ratio of share draft accounts to members increases by 3%.

**Performance Goal 3.1b:** X%<sup>5</sup> more credit unions, under 50 million in assets, have, or have access to, ATM machines. X% more credit unions, over 50 million in assets, offer brokerage services.

*Outcome Goal 3.2: Enable credit unions and their members to succeed by ensuring that neither examination focus nor regulations impose unreasonable impediments.*

**Performance Goal 3.2a:** Credit unions are satisfied with the examination process, in general, as demonstrated by a 4.4 average overall response rating on the NCUA Examination Survey.

**Performance Goal 3.2b:** Credit unions perceive examining process and examiners as focused on important issues and willing to help as demonstrated by a 4.4 average response rating to questions number 3 and 4 on the NCUA Examination Survey.

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<sup>3</sup> With the exception of performance goal 2.1a, NCUA is not able, at this point, to formulate realistic performance goals for this strategic goal. Performance goals for will be developed for 2001 based on insights gained in 2000.

<sup>4</sup> Managers will not be held accountable for performance goals 2.1b, 2.1c, 2.2, or 2.3 during 2000. They are for future reference only.

<sup>5</sup> Baseline data not currently available. When we have that data, specific performance measures will be included. Managers will not be held accountable for this goal in 2000.

*Outcome Goal 3.3: Facilitate credit union partnerships with each other and other financial service providers, etc. in order to achieve economies of scale and be better able to meet member service expectations.*

**Performance Goal 3.3:** Seventy-two new partnerships will be arranged agency-wide (an average of one per supervisory examination group.)

**Strategic Goal #4: Enable credit unions to leverage their unique place in the American financial services sector to make service available to all Americans who are not currently being served, particularly those of modest means.**

*Outcome Goal 4.1: Increase the number of credit union members.*

**Performance Goal 4.1:** Increase the number of federally insured credit union members by 3%.

*Outcome Goal 4.2: Increase credit union service to low-income and underserved areas.*

**Performance Goal 4.2a:** Add 36 underserved areas to new or existing credit union charters.

**Performance Goal 4.2b:** Increase total number of low-income designated credit unions by 13%.

**Performance Goal 4.2c:** Increase the number of credit union members in low-income designated credit unions by 25%.

**Strategic Goal #5: Enhance NCUA's organizational ability to serve as a proactive partner with the credit union community in addressing the challenges of the 21<sup>st</sup> century.**

*Outcome Goal 5.1: Ensure that NCUA has the ability to identify the issues and trends and implement timely solutions before issues become critical.*

**Performance Goal 5.1a:** Result of survey administered to NCUA staff and to the NCUA Board at the beginning, middle, and the end of the year show improved satisfaction with the quality and timeliness of information provided.

**Performance Goal 5.1b:** Strategic Management Council brings issues to the NCUA Board's attention well in advance of the budget process.

*Outcome Goal 5.2: Ensure that NCUA's examination and supervision program incorporates a balanced view of safety and soundness and empowers the examiner to focus on risk evaluation and problem resolution.*

**Performance Goal 5.2:** Credit unions perceive that examiners have a more balanced view of safety and soundness and a better focus on risk and evaluation and problem resolution as a result of revisions made to the examination and supervision program. This is demonstrated by a 4.4 average response rating to new questions added to the NCUA Examination Survey.

*Outcome Goal 5.3: Ensure that NCUA has the organization in place to support a renewed emphasis on credit union growth and development.*

**Performance Goal 5.3:** The Strategic Management Council presents to the Board recommendations for 2001 budget consideration by July 31, 2000.

## SECTION II

### GOALS, MEANS, AND STRATEGIES

**STRATEGIC GOAL #1: PROMOTE A SYSTEM OF FINANCIALLY SOUND, WELL MANAGED FEDERALLY INSURED CREDIT UNIONS ABLE TO WITHSTAND ECONOMIC VOLATILITY.**

**Outcome Goal 1.1:** Ensure that federally insured credit unions are financially healthy.

**Performance Goal 1.1a:** Reduce the percentage of federally insured credit unions with return on assets of less than 0.5% and net worth of less than 6% to 1.28% of credit unions. (Include only credit unions chartered longer than ten years.)

**Indicator:** The total number of federally insured credit unions with return on assets of less than 0.5% and net worth of less than 6%. There are 145 credit unions or 1.36% with these financial indicators as of December 31, 1999. The target for 12/31/2000 is 1.28% of operating credit unions.

**Data Source:** NCUA's 5300 Call Report System.

**Baseline:**

YEAR	DEC 91	DEC 92	DEC 93	DEC 94	DEC 95	DEC 96	DEC 97	DEC 98	DEC 99
<sup>6</sup> Credit unions with net worth <6% and ROA <.5%.	1,058	668	441	241	247	175	179	198	145
% Credit unions with net worth <6% and ROA <.5%	8.16%	5.30%	3.58%	2.01%	2.11%	1.54%	1.59%	1.80%	1.36%

**Comments:** The 6% figure comes from the prompt corrective action components of the Credit Union Membership Access Act. The .5% is half of the average federally insured credit union return on assets percentage, 1%.

**Verification and Validation:** On a semiannual basis, all federally insured credit unions (quarterly for federally insured credit unions over \$50 million) file an NCUA 5300

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<sup>6</sup>Operating longer than ten years.

Financial and Statistical Report. NCUA computes the net worth ratio using the information credit unions report in the equity section of the 5300 report. NCUA computes return on assets using information in the income and expense section. In the case of federally chartered credit unions, the NCUA 5300 is prepared by the federal credit union and sent to the NCUA examiner. The examiner runs computerized test checks against the data and reviews it to validate it from a supervisory reasonableness view. The NCUA examiner then uploads the information to the financial and statistical data base on a centralized file server, where information is available for standardized and ad hoc reports. In the case of most federally insured state credit unions, the state examiner handles the data review, validation, and upload.

The NCUA 5300 Financial and Statistical Report is the data source for 7 of NCUA's 17 performance goals. Given its importance to data integrity, NCUA's Office of the Inspector General will include a comprehensive review of the NCUA 5300 data collection process in its 2000 audit schedule. This review was previously scheduled for 1999.

**Performance Goal 1.1b:** Reduce the percentage of federally insured credit unions with net worth of less than 6% to 2.50% of federally insured operating credit unions.

**Indicator:** The total number of federally insured credit unions with net worth of less than 6%. There are 284 credit unions, or 2.67% with this financial indicator as of December 31, 1999. The target number for 12/31/00 is 2.50% of operating credit unions.

**Data Source:** NCUA's 5300 Call Report System.

**Baseline:**

YEAR	DEC 90	DEC 91	DEC 92	DEC 93	DEC 94	DEC 95	DEC 96	DEC 97	DEC 98	DEC 99
Credit unions with net worth <6%	2,514	2,576	2,278	1,431	931	541	405	364	347	284
% Credit unions with net worth <6%	19.55	19.88	18.09	11.62	7.76	4.63	3.5	3.24	2.55	2.67

**Comments:** The 6% figure comes from the prompt corrective action components of the Credit Union Membership Access Act. The 2.50% figure is based on an analysis of past performance and considers what can be accomplished given 2000 resources.

**Verification and Validation:** See discussion of 5300 Report included under performance goal 1.1a.

Note: Using the 5300 as a primary data collection method creates data timeliness issues. Data for **all** credit unions is available biannually, only. Data for year end (December 31) is available in February and mid-year data (June 30) is available in August. This provides



a good long range view, but makes it difficult to recognize and respond to trends in the short-term.

A short-term view, and the ability to quickly adjust strategy to current circumstance, is provided by information which comes from the Examination System (EXM) data base. Examiners complete their review of federally insured credit unions using automated system known as AIRES (Automated Integrated Regulatory Examination System). When the examination is completed, the report is uploaded to an NCUA file server which stores select key information from the examination in the Examination System (EXM) database.

Each region is responsible for quality review of the examination data. Regional office staff review examination reports for all credit unions: coded CAMEL 4 or 5; coded CAMEL 3, with assets greater than \$50 million; with assets greater than \$250 million. In addition, a selected sample of all exams and follow-up exams are reviewed, as determined by the regional director.

## **2000 STRATEGIES**

- Complete the Future Examination Committee (FEC) review that began in 1999. The FEC review includes evaluating examination scope; the possibility of some credit union self-examination, the need for specialized examiners, etc.
- Begin to implement FEC recommendations.
- Revise and improve corporate examination procedures now that they have been field tested for a full year.
- Implement the new AIRES version, emphasizing a risk-based review.
- Develop a program in the areas of market risk, asset liquidity management and complex risk management techniques to augment existing examination and supervision activities.
- Monitor undercapitalized (less than 6% net worth ) credit unions using the examination data base. Devote increased supervisory attention to those credit unions.
- Provide prompt corrective action training to all examiners during regional conferences. Ensure consistency of approach and a healthy balance between regulatory requirements and business risk-taking.
- Assist undercapitalized credit unions in developing net worth restoration plans.
- Establish a working committee, including credit unions and trade associations, to explore alternative sources of capital for all credit unions.
- Review NCUA Rules and Regulations (related to alternative capital sources) to determine if any changes are necessary. If appropriate, begin process to make changes.
- Publicize availability of any alternative capital sources.
- Continue to update and broaden Community Development Revolving Loan Program policies and procedures to allow the Community Development Fund more flexibility in lending rates, terms, and types of loans/deposits offered.

**Outcome Goal 1.2:** Ensure that credit union management is aware of and prepared to meet potential financial challenges.

**Performance Goal 1.2:** Reduce the percentage of those federally insured credit unions that remain CAMEL code 3 for more than 36 months to 4% of operating federally insured credit unions.

**Indicator:** As a part of each examination a composite CAMEL code is assigned. The composite code rates the level of risk a credit union represents to the NCUSIF. The higher the number, the greater the level of risk. Higher numbered credit unions (codes 3, 4, and 5) require more supervisory attention from NCUA staff. CAMEL code 3 represents performance that is flawed to some degree and is of supervisory concern. Key performance measures are generally flat or negative to the extent that safe and sound operations may be adversely affected. CAMEL code 3 credit unions are only nominally resistant to the onset of adverse business conditions and are, generally, not prepared for potential financial challenges. This is particularly true of credit unions that remain a 3 for more than 36 months.

Credit unions with a composite rating of 3, 4, or 5 generally have a comparable rating in the “M”, management component, of CAMEL. We have opted to measure the composite rating rather than the more directly related “M” component because, of the component ratings, the “M” is the most subjective.

**Data Source:** Examination (EXM) data base.

**Baseline:**

YEAR	DEC 92	DEC 93	DEC 94	DEC 95	DEC 96	DEC 97	DEC 98	DEC 99
FICUs with 3>36 months	1,183	1,127	1,076	914	773	673	567	462
No. of federally insured credit unions	12,595	12,317	11,992	11,687	11,392	11,238	10,995	10,629
% FICUs with 3>36 months	9.4%	9.1%	9.0%	7.8%	6.8%	6.0%	5.2%	4.3%

**Verification and Validation:** CAMEL ratings are assigned in conjunction with an examination or supervision contact at a credit union. CAMEL ratings for federal credit unions are assigned by NCUA examiners. In the case of federally insured state chartered credit unions, the CAMEL rating is assigned by the state supervisor and may be reviewed by NCUA..

See also discussion of Examination Data Base under **performance goal 1.1b.**

## **2000 STRATEGIES**

- Develop and begin to implement a national program that shifts examination focus from segmented, micro reviews to integrated, macro reviews. (For example reviewing investments in the context of portfolio management, asset liability management positioning, and strategic objectives, rather than focusing on individual investments.)

- Develop macro and micro analytical reports, that include forecasting, to focus resources on credit unions which are outside of the norms developed.
- Provide periodic Future Examination Committee (FEC) updates to all examination staff to reinforce an examination philosophy that promotes risk based reviews, a bigger picture and a more forward looking view.
- Develop a more timely, comprehensive reporting mechanism to identify trends and concerns in corporate credit unions.
- Update and keep current the credit union management training curriculum used in adult education or community college settings.
- Sponsor an internship program to provide low-income credit unions a pool of new, well trained talent. Credit unions will select and train thirty interns in 2000.
- Provide regional workshops under the auspices of the small credit union program (SCUP). Each NCUA region will sponsor at least two workshops on topics which will include management training, prompt corrective action and net worth restoration plans.

**Outcome Goal 1.3:** Maintain the healthy performance of the National Credit Union Share Insurance Fund.

**Performance Goal 1.3a:** Maintain an equity ratio of 1.3%

**Indicator:** Percent of equity to insured shares.

**Data Source:** 5300 Reports/Share Insurance Report prepared by the Office of the Chief Financial Officer.

**Baseline:**

<b>YEAR</b>	<b>89</b>	<b>90</b>	<b>91</b>	<b>92</b>	<b>93</b>	<b>94</b>	<b>95</b>	<b>96</b>	<b>97</b>	<b>98</b>	<b>99</b>
<b>Equity Ratio</b>	1.25%	1.25%	1.23%	1.26%	1.26%	1.27%	1.30%	1.30%	1.30%	1.30%	1.30%

**Comment:** When the equity level drops below 1.3% the NCUA Board must consider whether or not to assess a premium. That is avoided with an equity ratio of at least 1.3%.

**Verification and Validation:** The amount of equity is reported in the financial statements of the National Credit Union Administration Share Insurance Fund (NCUSIF.) The records of the fund are maintained using generally accepted accounting principles which include the establishment of estimated liabilities, accruals and deferrals to fairly represent the balance sheet and statement of operations. A system of internal controls is in place to ensure the accuracy of the financial statements. Additionally, the annual financial statements of the fund are audited by a major certified public accounting firm. This external review includes a review of the financial statements and the adequacy of the fund's internal controls. A certified public accounting firm has rendered an unqualified opinion for the last 16 years.

See comments under **outcome goal 1.1** for a discussion of collecting data via the NCUA 5300 Financial and Statistical Report.

**Performance Goal 1.3b:** The ten year average for insurance loss ratio stays below \$0.30 per \$1,000.

**Indicator:** The National Credit Union Administration Share Insurance Fund establishes a liability for estimated losses from insured credit unions which are troubled, merging, or liquidating. The amount of insurance loss is the difference between the amount of liabilities for losses on the Fund's balance sheet to the actual amount needed which is based on an ongoing analysis systematically completed by the Office of Examination and Insurance.

**Data Source:** Share Insurance Report.

**Baseline:**

YEAR	89	90	91	92	93	94/94T <sup>7</sup>	95	96	97	98	99
Loss per \$1,000	\$ 0.58	\$ 0.51	\$ 0.83	\$ 0.51	\$ 0.25	\$0.10/ \$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

**Comments:** The charge for insurance loss varies from region to region. The goal is to limit the loss amount to an acceptable degree. A zero loss goal is not the target objective, but rather to reduce excessive insurance risk relative to the NCUSIF prevailing equity level. There are other agency goals that increase relative risk to the Fund. This goal recognizes that some measure of risk to the Fund is planned, anticipated and appropriate.

**Verification and Validation:** See performance goal 1.3a.

## **MEANS AND STRATEGIES**

### **2000 STRATEGIES**

- Take appropriate action should charges for insurance losses begin to approach \$.30 per \$1,000 of insurance shares. Action might include: assigning more staff to special action components; establishing national teams to deal with regional problems, and, requesting NCUA Board approval to take specific action to deal with emergency situations.
- Complete 90% of examinations of all federally chartered credit unions within 45 days of beginning on-site activity.
- Conduct quality control reviews on a statistically valid sample to achieve a 90% confidence ratio. Quality control reviews will support a risk-based examination scope. (See outcome goal 1.1).
- Continue to update Examiners Guide based on findings of post-mortem reviews.

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<sup>7</sup> Transition quarter, October 1-December 31, 1994

- Manage NCUA's supervision program so that the percentage of federally insured credit unions that remain CAMEL code 4 or 5 is no more than 1.1% for 12 months and no more than .45% for 24 months. No more than 4.5% of federally insured credit unions will remain CAMEL code 3 for more than 36 months.
- Strive to preserve credit union service to members by considering all options. Approval process for assisted merger will require documentation that all other options were explored.
- Increase asset-liability management (ALM) emphasis including pilot ALM reviews at credit unions with real estate concentrations.
- Work with state regulators on insurance risk reviews of federally insured state chartered credit unions to ensure insurance fund concerns are addressed. Select state chartered credit unions, at random, (at least two per state) for review.

## STRATEGIC GOAL #1 ONGOING STRATEGIES

**Examination Program.** NCUA's examination program is focused on detecting federally insured credit union weaknesses and working with management to develop effective solutions. NCUA examiners give, and thoroughly discuss with, credit union managers their findings and concerns. This is done through a formal report and exit conference at the time of the completion of each examination.

**Supervision Program.** NCUA uses both on and off-site supervision tools to monitor the financial status of federally insured credit unions.

- The examiner does **on-site** work with credit union officials to correct specific financial and operational problems. When regional management determines more supervision time is required to resolve major areas of concern, the credit union may be assigned to the regional division of special actions.
- NCUA's **off-site** supervisory activity relies on the financial and statistical data federal insured credit unions periodically submit. Off-site supervision is used to track the progress of credit unions with problems and to enable examiners to detect emerging issues and to ensure that federally insured credit unions take timely corrective action. The Office of Examination and Insurance analyzes credit union data to detect adverse trends and emerging issues. The Office of Examination and Insurance works with the regional office to ensure that examiners and credit unions take action on these issues in a timely manner.

The NCUA Board has the authority to invoke certain administrative remedies to prevent or eliminate serious operational problems in credit unions. When workable and realistic plans to resolve problems are not successful, formal administrative actions are initiated. Insolvent credit unions are ultimately merged or liquidated with the involvement of the Insurance Fund.

**Low Income and Small Credit Union Programs.** Each NCUA region addresses the particular needs of small and low income credit unions. Examiners, economic development specialists and regionally designated small credit union specialists use supervision tools to monitor the financial status of program credit unions throughout the year. Economic development and small credit union specialists focus on intensive and protracted work with credit union officials to correct specific financial and operational problems. Economic development specialists and regionally designated small credit union specialists provide “hands on” technical assistance and training to ensure the officials and employees of low-income credit unions understand and are capable of performing their duties.

The Office of Community Development Credit Unions analyzes low-income credit union data to detect adverse trends and emerging issues. The Office of Community Development Credit Unions collaborates with the Office of Examination and Insurance and each region in addressing unfavorable trends.

## **CROSSCUTTING EFFORTS**

Strategies for this goal for 2000 include a comprehensive review of NCUA’s examination program and staff skills needed to complete that program. NCUA will consult with other federal regulators on matters relating to risk-based examinations, specialized examiners and forecasting economic trends and problem areas. NCUA will learn from and, where appropriate, adopt the best practices of others.

**Federal Financial Institutions Examination Council. (Exam Council)** NCUA participates on several examination and supervision related Exam Council task forces that have an impact on Strategic Goal #1. They include:

- **Real Estate Appraisal Sub-Committee:** This committee’s efforts have resulted in better appraisals and fewer credit union lending losses.
- **Training Sub-Committee (Task Force for Examiner Education):** NCUA staff members participate in a number of Exam Council training courses. This is a cost effective way for NCUA staff to acquire skills in specialized areas. Additionally, this group is exploring the use of CD ROMS and video-conferencing to get better information to all, more quickly.
- **Task Force for Supervision:** NCUA has adapted this committee’s letter on sub-prime lending to address credit union risk-based lending issues. Additionally, joint policy statements have been and will be, issued.

**State Supervisory Authorities.** State supervisory authorities detect and resolve operational and managerial problems in federally insured state chartered credit unions. NCUA works cooperatively with them to monitor and resolve major areas of concern. For 2000, this will be accomplished by a risk based and random sample approach to on-site federally insured state chartered credit union reviews.

NCUA provides personal computers, printers, software, extensive training and other resources to State Supervisory Authorities. In exchange, the states agree to fully utilize NCUA's examination system in their examination of state chartered credit unions. Four hundred and twenty notebook computers and fifty desktop computers will be leased for state regulatory staff in 2000 to replace existing equipment.

**Crosscutting involving Low Income and Small Credit Union Programs:**

- Participate in the Interagency Working Group for Micro-enterprise Development to encourage other government agencies to include more credit unions in their programs;
- Partner with the Small Business Administration for products and services; and
- Increase credit union awareness of the Department of Treasury's Community Development Financial Institutions Fund and Small Business Administration Programs.

**MEANS**

**Human Resources.** The 2000 budget includes **835.73 FTE's** specifically allocated to strategic goal.#1 Promote a system of financially sound, well managed federally insured credit unions able to withstand economic volatility. This represents 79.66% of NCUA's FTEs.

To support increased attention to asset-liability management and complex risk management techniques, NCUA will develop a position description and will recruit for a cadre of specialized examiners who excel in these areas. Beginning in 2001, an increased number of regional capital market specialists will augment existing field staff when dealing with credit unions that would benefit from the increased attention. There are currently 2,020 credit unions with total assets of \$204.4 billion that meet the profile for this program.

The 2000 budget is very heavily concentrated on strategic goal #1. As a result of efficiencies achieved by the new strategic thrust of the Future Examination Committee we expect to see resources reallocated to strategic goals 2, 3, and 4. This will also occur as new programs and new initiatives are developed. 2000 is a start-up year. NCUA is moving from its traditional view of safety and soundness to a broader one which encompasses the ability of credit unions to compete in the market place consistent with credit union philosophy and principles.

**Budget.** The 2000 budget for the strategic goal #1 programs is **\$106.9 million dollars**. This represents 79.22% of NCUA's budget.

## **Staff Skills**

- Y2K priorities caused significant scale back of planned examiner training during 1999. In part to compensate, 2000 will be a heavy training year. Regional conferences will be held, training will be provided on the new version of AIRES and each examiner will have at least one training class.
- Specialized examiners and regional investment specialists will be provided stepped up training.
- Corporate examiners will be trained by the newly hired information systems and payment systems specialists.
- Asset-liability management training (ALM) and real estate lending training will be provided to all examination staff at regional conferences. Real estate lending, currently is an area of potential risk to the Insurance Fund. ALM is an important component of a risk-based examination program.
- Streamlined new examiner training, planned for 1999, will be delayed until 2001, a year less full from a training standpoint.

## **EXTERNAL FACTORS**

**Economy.** In spite of our best efforts and those of the credit union community, credit union financial performance can be impacted by such factors as:

- an unstable interest environment;
- a high level of regional or national unemployment;
- dramatic changes to the structure of the labor force; and,
- an event risk (e.g. a stock market fluctuation, an international financial crisis, widespread bank failures, etc.)

**Real Estate Lending.** Credit unions are increasing their loan portfolios with long-term fixed rate loans. If there are changes in interest rates, credit unions can not readily recover with a structure that has a large number of long-term fixed rate loans unless those credit unions have asset liability management programs to address this area. Real estate lending is an important component of many credit unions' balance sheets. As noted in NCUA Letter to Credit Unions 99-CU-12, real estate lending has unique risk characteristics, many of which are triggered by economic issues. Should these potential risks manifest into actual risk, we would need to divert resources to susceptible credit unions.



**STRATEGIC GOAL # 2: ENSURE THAT CREDIT UNIONS ARE PREPARED TO SAFELY INTEGRATE FINANCIAL SERVICES AND EMERGING TECHNOLOGY IN ORDER TO MEET THE CHANGING NEEDS OF THEIR MEMBERS.**

**Outcome Goal 2.1:** Ensure that credit unions have access to information and training about emerging financial service technology and use this information to integrate innovative technology planning, contracting, deployment, and support within the credit union framework.

**Performance Goal 2.1a:** Increase by 25% the number of credit unions offering interactive services.

**Indicator:** As of December 1999 there are 2,826 credit unions offering interactive services. A 25% increase would be 3,532 credit unions with interactive services. This will be more difficult to achieve if there is a decline in the number of credit unions.

**Data Source:** NCUA's 5300 Call Report System. Interactive services are defined on the call report.

**Baseline:**

YEAR	JUN 98 <sup>8</sup>	DEC 98	DEC 99
No. of cu's offering interactive service	366	484	2,826

**Comments:** Although this is a rapidly growing service, many credit unions have been reluctant to introduce new computer -based service until the century date change. There may be a surge of new interactive service providers not directly attributable to NCUA efforts.

**Verification and Validation:** See discussion of NCA 5300 Call Report under performance goal 1a.

**Performance Goal 2.1b:** X% of credit unions have adequate technical plans in place.

**Performance Goal 2.1c:** Increase the number of credit unions offering bill payment and presentment services by x%.

**Outcome Goal 2.2** Ensure that credit unions understand emerging security threats and are prepared to deal with them.

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<sup>8</sup> The first full cycle for which this information was collected ended 6/30/98

**Performance Goal 2.2:** Surety bond claims due to security violations no more than x.

**Outcome Goal 2.3:** Promote public trust in credit union deployment of emerging technology.

**Performance Goal 2.3:** Increase the number of credit union members using interactive services by x%.

Please note: These goals, or something very much like them, represent the hoped for results of NCUA's Credit Union Information Technology Review Program, and NCUA's outreach efforts related to technology. Although this program and certain outreach efforts will be put in place in 2000, realistically, NCUA's 2000 impact on credit union technology will be minimal. NCUA must lay the groundwork, as described in the following strategies, before we are truly prepared to help credit unions, "integrate innovative technology, planning, contracting, deployment, and support within the credit union framework."

With the exception of **performance goal 2.1a**, NCUA is not able, at this point, to formulate realistic performance goals for this strategic goal. 2000 strategies include determining credit union information system status and needs. Performance goals will be developed for 2001 based on insights gained in 2000.

## **2000 STRATEGIES**

- Establish a program that reviews information system program in use by credit unions.
- Assess the information system needs of the credit union community --using call reports and surveys.
- Develop a comprehensive and detailed examination program to evaluate the electronic financial services area, including security risk, privacy, and compliance issues. This includes credit unions and vendors providing service to credit unions.
- Make changes to the NCUA 5300 Call Report in order to collect performance data for performance goals.
- Disseminate best practices material to credit unions on information systems internal controls.
- Seek permanent supervisory authority over credit union information technology vendors.
- Convene a conference with credit union information technology vendors to provide information on NCUA direction and to share best practices.

## GAO Review

A 1999 GAO audit on federal financial regulatory agency cyberbanking examination procedures criticized NCUA's delayed efforts in implementing an examination program. NCUA is in agreement with the need to move more rapidly in this area. Therefore, putting in place an examination program will be a priority for 2000.

## CROSSCUTTING EFFORTS

**Federal Financial Interagency Examination Council.** Joint internet provider vendor reviews is one of the cooperative efforts of the **Supervision Sub-Committee**. This is useful for NCUA as some vendors serve both banks and credit unions.

## MEANS

**Human Resources.** The 2000 budget includes **42.88 FTE's** specifically allocated for information technology initiatives. This represents 4.09% of NCUA's FTE allocation. In addition to the cyber-financial services specialists in the Office of Examination and Insurance, the 42.88 FTE's includes examiner time allotted to technology issues. NCUA plans to establish regional cyber financial services examiners and begin to recruit to fill those positions in 2001.

NCUA will work with contractors (CPA firms) that have existing audit programs to review credit union computer programs/services. The initial work will be to determine the scope of credit union cyber-financial services. That will determine the extent of NCUA's supervision program. Estimated cost of contracted services is \$750,000.

**Budget.** The budget for strategic goal #2 programs is **\$6.23 million**. This represents 4.62% of NCUA's budget.

**Staff Skills.** NCUA will emphasize field staff training on information system technology including cyber-financial services. This will be accomplished through:

- regional conferences;
- examination checklists;
- senior examiner update classes; and,
- Exam Council classes.

Please note this training emphasis is in line with GAO and NCUA Office of Inspector General recommendations.

Initially, the cyber-financial services specialists will be hired from existing staff. These individuals will be provided intensive training.

## EXTERNAL FACTORS

The other federal financial regulatory agencies have the authority to review the operations of vendors providing cyber-financial services to financial institutions. The Examination Parity Act gave NCUA the same authority. However, a sunset provision in this Act means that NCUA's authority lapses on 12/31/01. NCUA will seek legislative authority to obtain permanent review authority. As most credit unions use a vendor to provide cyber-financial services, if this authority is not obtained, NCUA's supervision program will be less effective.

### **STRATEGIC GOAL #3: CREATE A REGULATORY ENVIRONMENT THAT WILL FACILITATE CREDIT UNION INNOVATION TO MEET MEMBER FINANCIAL SERVICE EXPECTATIONS.**

**Outcome Goal 3.1:** Assist credit unions in understanding the impact of changing demographics and in positioning themselves to address changing member expectations.

**Performance Goal 3.1a:** The ratio of share draft accounts to members increases by 3%.

**Indicator:** Based on the 1999 projected membership increase, it is estimated that there will be 78 million credit union members by 12/31/00. (This includes state chartered, federally insured credit unions in addition to those that are federally chartered.) The 3% equates to a ratio of share draft accounts to number of members of 40.3% or 31 million accounts.

**Data Source:** NCUA's 5300 Call Report System.

**Baseline:**

YEAR	DEC 91	DEC 92	DEC 93	DEC 94	DEC 95	DEC 96	DEC 97	DEC 98	DEC 99
Ratio of share draft accounts to members (%)	29.20	30.37	31.58	33.32	34.04	35.93	36.60	37.89	39.2
% increase		4%	4%	5.5%	2.1%	5.5%	1.8%	3.5%	3.4%

**Comments:** A member who has a share draft account with a credit union is more likely to use it as his/her primary financial institution. This is an indicator that the credit union is meeting member expectations.

**Verification and Validation:** See comments under performance goal 1.1a.

**Performance Goal 3.1b:** X% more credit unions, under 50 million in assets, have access to ATM networks. X% more credit unions over 50 million in assets, offer brokerage services.

**Indicator:** These are indirect measures of credit union responsiveness to member expectations. ATM's and brokerage services are considered to be key services offered by progressive credit unions. What is considered progressive for a small credit union differs from what is so considered for a larger institution.

**Data Source:** NCUA's 5300 Call Report System fairly recently introduced questions that provides answers regarding credit union brokerage services. Data regarding ATM networks is not currently available.

**Baseline:** Will be provided when we have more historic data. That data will be used to develop specific performance measures.

**Verification and Validation:** See discussion of NCUA's 5300 Call Report System under **performance goal 1.1a**.

## **2000 Strategies**

- Encourage all credit unions to have business plans that focus on meeting member expectations.
- Address the benefits of business plans as a management tool during supervision contacts.
- Track the number of credit unions with business plans by data available through the examination process.
- Issue press releases and letters to credit unions on the development and use of business plans.

**Outcome Goal 3.2:** Enable credit unions and their members to succeed by ensuring that neither examination focus nor regulations impose unreasonable impediments.

**Performance Goal 3.2a:** Credit unions are satisfied with the examination process, in general, as demonstrated by a 4.4 average overall response rating on the NCUA Examination Survey.

**Indicator:** The average overall response rating to the questions on the NCUA Examination Survey which is based on a scale of 5 (Definitely Agree) to 1 (Definitely Disagree).

**Data Source:** Representative sampling of all credit unions examined.

**Baseline:**

YEAR	96	97	98	99
Average overall response rating	4.4	4.4	4.4	4.5

**Verification and Validation:** Following the completion of a federal credit union examination, the examination report is uploaded to the NCUA file server. The Office of Examination and Insurance generates a letter to federal credit unions requesting that the NCUA Examination Survey Questionnaire be completed and returned to the Office of Examination and Insurance. The letter and questionnaire advise the federal credit union

that the information is confidential and will not be shared with the examiner. The questionnaire does not contain information that allows it to be traced to a specific federal credit union.

The questionnaire asks eleven questions about the examination process and allows opportunity for “other comments.” Eight of the questions request a score ranking which along with other data (state, region, asset size) is entered into a database that is maintained by the Office of Examination and Insurance. A standardized query converts the individual rankings in the database into an overall ratio. The average response rate has been 67.4%. This survey has not been validated.

**Performance Goal 3.2b:** Credit unions perceive examination process and examiners as focused on important issues and willing to help as demonstrated by a 4.4 average response rating to questions number 3 and 4 on the NCUA Examination Survey.

**Indicator:** The average overall response rating to: Question 3. “The examiner concentrated on what was important during the examination,” and Question 4. “The examiner was willing and able to work with the management team (e.g. developing, as necessary, corrective action to areas of concern, sharing information, discussing applicable current credit union issues.)”

**Data Source:** Representative sampling of all credit unions examined.

**Baseline:** The Examination Survey was revised in 1999 and these questions were added. Therefore, baseline data is not available. Our goal is that ratings for these two questions are as least as good as the ratings for the survey as a whole.

**Comments:** Positive answers to these questions indicate that the focus of the NCUA examination encompasses a focus on business issues of concern to credit union managers, as well as safety and soundness.

**Verification and Validation:** See discussion under **performance goal 3.2a.**

## **2000 Strategies**

- Ensure that NCUA’s examination and supervision view of safety and soundness is in balance with the need for a successful credit union to take reasonable risks.
- Continue the review of NCUA rules and regulations, examination and supervision policies and practices and provide guidance to staff where flexibility may be exercised.
- Identify emerging services and review and revise regulations, as appropriate, to support these services.
- Move forward with the review and revision of corporate credit union regulations to ensure corporates have the authority they need to serve their members while maintaining adequate safety and soundness safeguards.
- Issue press releases and letters to credit unions on issues related to flexibility and reasonable risk-taking.
- Actively publicize new emphasis at various meetings.

- Encourage NCUA staff (at all levels) to attend and participate in conferences/meetings in order to facilitate more networking between NCUA staff, vendors, and credit union staff.
- Continue to conduct a series of town meetings with credit union officials and staff.
- In support of the *Conversations with America Program*, continue to publicize opportunities for the public to provide feedback to NCUA Board members and other senior managers.
- Consider feedback when modifying examination and supervision program and reviewing NCUA rules and regulations.
- Conduct work shops for credit unions in a particular area.
- Give staff sufficient work schedule flexibility to permit and encourage participation in community activities and civic associations.

**Outcome Goal 3.3:** Facilitate credit union partnerships with each other and other financial service providers, etc., in order to achieve economies of scale and be better able to meet member service expectations.

**Performance Goal 3.3:** Seventy-two new partnerships will be arranged agency-wide (an average of one per supervisory examiner group).

**Indicator:** Any working arrangement between a credit union and a credit union service organization, another credit union, another financial institution, a municipal or other non-profit organization, etc. for the purpose of improving member service.

**Data Source:** Regional reports. May be added to 5300 Report in 2001.

**Baseline:** This data will be collected for the first time in 2000.

**Verification and Validation:** We will provide this information when we have more experience with the data collection process.

## **2000 Strategies**

- Become more public relations mindful, visible, and accessible in the credit union and political community.
- Target specific areas for credit union expansion, e.g. facilitate meetings of credit unions with economic zone officials.
- Encourage credit unions to partner with each other in order to share knowledge and expertise and to form alliances in order to achieve economies of scale.
- Identify credit unions interested in partnering with other credit unions.
- Identify CUSO's interested in partnering with credit unions.
- Facilitate meetings of interested parties by disseminating information of mutual interest.

- Serve as a resource at meetings to dispel misinformation and to provide a balanced prospective.

## **CROSSCUTTING EFFORTS**

**Trades and Leagues:** NCUA recognizes its primary role is regulatory and that leagues and trades often take the lead, or at least are heavily involved, in some of the strategies associated with this goal. NCUA does not intend to do what others can do better, but NCUA will be more aggressive in efforts to facilitate the efforts of others and ensure a regulatory approach that does not unduly interfere with initiatives geared to enhance member service expectations. Specific crosscutting efforts include:

- Partner with leagues and trades in the development and presentation of educational programs and materials focused on business planning;
- Work closely with credit union (including corporate) groups and associations to address common issues for the mutual good;
- Encourage examiners to routinely attend league chapter meetings; and,
- Encourage NCUA staff at all levels to accept speaking engagements at league and trade association annual meetings.

## **MEANS**

**Human Resources.** The 2000 budget includes **37.54 FTE's** specifically allocated to strategic goal #3, "Create a regulatory environment that will facilitate credit union innovation to meet member financial service expectations." This represents 3.58% of NCUA's FTE allocation. In order to support this goal examiner staff have been allocated additional time for meetings and conferences.

**Budget.** The budget for strategic goal #3 programs is \$ **4.80 million**. This represents 3.56% of NCUA's budget.

### **Staff Skills**

- Examiner training programs at all levels, in all subject matter areas, will address the need for a safety and soundness view in balance with the need for a credit union to take reasonable risks.
- Examiner training curriculum will include material on business planning and plans.
- Examiners will be kept informed of credit union customer service options.



## EXTERNAL FACTORS

The financial service expectations of the U.S. population are changing dramatically. Ease and convenience of transactions become important and increasingly credit union members will not hesitate to go elsewhere for what is perceived as better or more convenient service.

Deregulation means that new players will compete for traditional credit union business. Insurance companies and brokerage houses, as well as non-traditional financial service providers such as technology companies will offer a full range of financial products and services. The Financial Modernization Act means credit unions will be competing with full service, one stop shopping institutions. These competitors have financial resources, technology, expertise and the variety of services to challenge the more traditional financial service providers, including credit unions.

**STRATEGIC GOAL #4: ENABLE CREDIT UNIONS TO LEVERAGE THEIR UNIQUE PLACE IN THE AMERICAN FINANCIAL SERVICES SECTOR TO MAKE SERVICE AVAILABLE TO ALL AMERICANS WHO ARE NOT CURRENTLY BEING SERVED, PARTICULARLY THOSE OF MODEST MEANS**

**Outcome Goal 4.1:** Increase the number of credit union members.

**Performance Goal 4.1:** Increase the number of federally insured credit union members by 3%.

**Indicator:** Total increase in number of federally insured credit union members from 12/31/99 to 12/31/2000.

**Data Source:** NCUA 5300 Report

**Baseline:**

YEAR	89	90	91	92	93	94	95	96	97	98	99
No. of members (millions)	54.5	55.6	58.6	62.0	63.6	65.0	67.0	69.1	71.4	73.4	75.3
% Inc.		2.0%	5.3%	5.1%	2.5%	2.2%	3.0%	3.1%	3.3%	2.8%	2.5%

**Comment:** Although NCUA has the most direct impact on federally chartered credit unions, our goal encompasses membership in state-chartered federally insured credit unions, as well. Several of NCUA strategies involve cooperating with the states and trade associations to help increase public awareness of the benefits of credit union membership, without distinguishing between federal and state charters.

**Verification and Validation:** See discussion of 5300 Report included under performance goal 1.1a.

## **2000 Strategies**

- Achieve better balance between safety and soundness concerns and credit union access goals.
- Develop an *Express Charter* process.
- Develop a simplified electronic application process through the NCUA web page.
- Develop a Letter to Credit Unions in a question and answer form to explain new chartering policies.
- Develop lists of new charter possibilities. Meet with potential new charter organizers.
- Distribute express charter process to leagues and credit union trade associations.
- Publicize express charter process through examiners, NCUA news publications, and speaking engagements.
- Put in place a quality control process for new charters and charter expansion processing.

**Outcome Goal 4.2:** Increase credit union service to low-income and underserved areas.

**Performance Goal 4.2a:** Add 36 underserved areas to new or existing credit union charters.

**Indicator:** For purposes of this measure, underserved areas are investment areas as defined in Section 103(16) of the Community Development Banking and Financial Institutions Act of 1994. Investment areas are also defined in Chapter 3, Section III of NCUA's Chartering and Field of Membership Manual.

**Data Source:** Generated Efficient National Information System for Insurance Services (GENISIS).

**Baseline:** The definition of underserved as an "investment area" was first introduced by The Credit Union Membership Act of 1999. Therefore, baseline data is not available.

**Verification and Validation:** A federal credit union adding an underserved community must document that the community meets the definition for serving underserved areas. That documentation is reviewed by regional insurance divisions and the NCUA Board.

A regional division of insurance staff person keys into GENISIS all data related to all new federal credit union charters and all charter amendments. There is a specific data field for "Request from a credit union to serve an underserved area as defined in Chapter 3, Section III, of the Chartering and Field of Membership Manual." Reports are reviewed

by insurance division management and Office of Examination staff to ensure proper data entry.

**Performance Goal 4.2b:** Increase the total number of low-income designated credit unions by 13%.

**Indicator:** Total increase in the number of low-income designated credit unions from 12/31/99 to 12/31/2000.

**Data Source:** This information was previously available from 5300 Reports, Management Information System Data Base. GENISIS is now the primary data source.

**Baseline:**

YEAR	90	91	92	93	94	95	96	97	98	99
No. of LICU's	142	134	145	191	214	263	346	398	464	538
% Inc.		-5%	12%	31%	12%	23%	32%	15%	17%	16%

**Comments:** The low-income designation entitles the credit union so designated to several benefits to help ensure the viability of the institution. They include:

- greater flexibility in accepting non-member deposits insured by the NCUSIF;
- ability to offer secondary capital accounts; and
- participation in special funding programs such as the Community Development Revolving Loan Program.

**Verification and Validation:** Currently, in order to obtain a low -income designation, greater than 50 percent of the credit union's membership must consist of low-income members. Using the current criteria, low-income members are defined as those members who make less than 80% of the average for all wage earners as established by the Bureau of Labor Statistics or those members whose annual household income falls at or below the median household income for the nation as established by the Census Bureau.

This designation can be validated by several methods:

- a zip code run of credit union membership compared to census data;
- a survey of 100% of credit union membership compared to census data;
- a survey of 100% of loans outstanding compared to census data; or,
- other supportive statistical data.

NCUA staff compares the information submitted by the credit union to census data for acceptability. Once accepted, the credit union is designated as low income in GENISIS. A standardized report is prepared to compare the current low-income designated credit unions to prior years.

**Performance Goal 4.2c:** Increase the number of credit union members in low-income designated credit unions by 25%

**Indicator:** Increase in the number of credit union members in low-income designated credit unions from 12/31/99 to 12/31/00.

**Data Source:** 5300 Call Report and GENISIS.

**Baseline:**

YEAR	93	94	95	96	97	98	99
No. of mbrs. (millions)	.692	.732	.770	.823	.997	1.27	1.70
% Inc.		5.40%	4.90%	6.44%	17.47%	21.68%	25.16%

**Verification and Validation:** See previous comments on NCUA 5300 Call Reports and GENISIS.

## 2000 Strategies

- Encourage chartering of new credit unions in low-income and underserved areas .
- Develop a database to identify low-income and underserved areas.
- Assemble low-income and underserved area information from the database and present it to eligible credit unions during the examination process.
- Encourage credit unions to expand into low-income or underserved areas based on information pulled from the data base.
- Facilitate meetings of credit unions and community representatives.
- Encourage eligible credit unions to apply for the low-income designation.
- Identify non low-income designated credit unions located in low-income areas.
- Assist credit unions located in low-income areas in determining whether or not they qualify for a low-income designation.
- Develop a brochure, using a question and answer format to explain the low-income designation process and advantage. Place the brochure on NCUA's web-site and distribute via examiners to likely credit union candidates.
- Explore the possibility of providing incentives to well managed credit unions to invest in underserved communities.
- Exercise flexibility in the application of regulations that may tend to impede credit union expansion to underserved areas, e.g. fixed asset rule limitations.
- Assist credit unions, upon request, in the development of community needs assessments and business plans.
- Help credit union officials prepare field of membership (FOM) expansion requests.
- Develop an on-line FOM expansion request process.
- Develop a notification of FOM expansion that provides for approval if not disapproved within a designated time frame.

## **CROSSCUTTING EFFORTS**

- Develop a way to link to Housing and Urban Development, Small Business Administration, and Census Bureau web-sites. These government agencies produce demographic information related to low-income communities, empowerment zones, investment areas, etc. Rather than developing information or an elaborate web-site providing the information, NCUA will use what is already available.
- Schedule meetings with state supervisory authorities, leagues and trade associations to discuss areas expanding credit union service to underserved areas.
- Partner with these organizations for seminars, conferences, etc.

## **MEANS**

**Human Resources.** The 2000 budget includes **132.92 FTE's** specifically allocated for initiatives related to access to credit union services. This represents 12.67% of NCUA's FTE allocation.

**Budget.** The budget for strategic goal #4 initiatives is **\$17 million**.

### **External Factors**

A perception of burdensome regulations may discourage application for federal credit union charters.

The Banking Modernization Act and the repeal of the Glass-Steagall Act makes an already competitive financial services environment even more competitive. The era of the financial "supermarket" will make credit union expansion challenging.

### SECTION III

## AGENCY MANAGEMENT GOAL

### AND

## AGENCY-WIDE STRATEGIES

**STRATEGIC GOAL #5: ENHANCE NCUA’S ORGANIZATIONAL ABILITY TO SERVE AS A PROACTIVE PARTNER WITH THE CREDIT UNION COMMUNITY IN ADDRESSING THE CHALLENGES OF THE 21<sup>ST</sup> CENTURY.**

**Outcome Goal 5.1:** Ensure that NCUA has the ability to identify issues and trends and implement timely solutions before issues become critical.

**Performance Goal 5.1a:** Result of survey administered to NCUA staff and to the NCUA Board at the beginning, middle, and at the end of the year show improved satisfaction with the quality and timeliness of information provided.

**Indicator:** As this survey has not yet been developed, it is difficult to determine results or expect the level of improvements for which we should strive.

**Data Source:** We will collect this information using a survey. The survey will be modeled after the Examination Survey provided to credit unions.

**Baseline:** Baseline data not available.

**Verification and Validation:** Phrasing of questions will be crucial for the validity of this instrument. The survey will be reviewed by the several NCUA offices with survey design experience.

**Performance Goal 5.1b:** The Strategic Management Council brings issues to the NCUA Board’s attention well in advance of the budget process.

#### **2000 Strategies**

- Create a Strategic Management Council.
- Assess the current method for identifying issues and trends.
- Assess the current method for bringing policy issues from senior staff to the Board and from the Board to senior staff.
- Review how other financial regulatory agencies identify issues and trends and implement timely solutions to deal with them.

- Explore options to better identify issues and trends, including taking steps to enhance NCUA's organizational ability to do so.
- Begin to put in place preferred options.
- Consider creating an economist position.
- Begin distributing information to credit unions regarding economic fluctuations, etc.

**Outcome Goal 5.2:** Ensure that NCUA's examination and supervision program incorporates a balanced view of safety and soundness and empowers the examiner to focus on risk evaluation and problem resolution.

**Performance Goal 5.2:** Credit unions perceive that examiners have a more balanced view of safety and soundness and a better focus on risk evaluation and problem resolution as a result of revisions made to the examination and supervision program. This is demonstrated by 4.4 average response rating to new questions added to the NCUA Examination Survey.

**Indicator:** The average response to the new questions. The questions will be developed by the Office of Examination and Insurance with input from others.

**Data Source:** Representative sampling of all credit unions examined.

**Baseline:** These questions will be added in 2000, therefore, baseline data is not available. Our goal is that the average rating for the new questions be at least as good as the ratings for the survey as a whole.

**Verification and Validation:** See discussion under **performance goal 3.2a.**

### **2000 Strategies**

Strategies for this performance goal are included under **performance goals 1.1, 1.2, and 3.2.** Additionally, the Office of Examination and Insurance will revise the examination survey to include the new questions mentioned above.

**Outcome Goal 5.3:** Ensure that NCUA has the organization in place to support a renewed emphasis on credit union growth and development.

**Performance Goal 5.3:** The Strategic Management Council presents to the Board recommendations for 2001 budget consideration by July 31, 2000.

### **2000 Strategies**

- Analyze resources currently in place to support outreach efforts. Determine adequacy of the same.
- If appropriate, establish a central office organization which provides national oversight for chartering, field of membership expansions, and mergers.

## **Agency-Wide Strategies**

For the most part, the strategies discussion for NCUA's 2000 Annual Performance Plan is broken out by "outcome goal." However, there are several strategies that apply across outcome goal lines. These are discussed below.

NCUA achieves its performance goals through the effective management of its human resources. Specifically, NCUA strives to promptly fill vacancies and retain those we have hired and trained. Also, effective use of technology is a means of increasing staff productivity and efficiency.

### **Promptly fill vacancies**

The Office of Human Resources has the following goals for recruitment lag time:

- 80% of NCUA wide merit promotion actions will take 60 days or less;
- 75% of government-wide announcements will take 75 days or less; and
- 75% of all sources/public notice announcements will take 90 days or less.

CY 99 statistics show the following:

- 83% of NCUA-wide merit promotion actions took 60 days or less;
- 74% of government-wide action took 75 days or less; and
- 80% of the all sources actions took 90 days or less.

2000 goals are as follows:

80% of NCUA wide merit promotion actions will take 60 days or less;  
75% of the government-wide actions will take 75 days or less; and  
75% of all sources action will take 90 days or less.

Please note: CY-99 performance exceeds overall performance goals. OHR's recruitment lag time goals have not been raised for several reasons. First, better historic data is necessary before raising goals. Second, the number of government-wide announcements and all source announcements is small and there will always be hard-to-fill vacancies to skew the averages.

Another measure of effective management of human resources is the number of Full Time Equivalents (authorized number of employee hours) used. NCUA's goal is to use 95% of all available FTE's. Although the agency will strive to use all of its FTE allocation, we have determined that a 100% goal is not realistic. This is based on a review of historic trends and NCUA's operating environment. NCUA has never used all its FTE's. This is because difficult to predict work load fluctuations make it impossible



to plan work needs, precisely, and staff dispersion makes it difficult to plan on turnover and develop a recruitment strategy to account for it.

To maintain timely recruitment and to more effectively manage human resources, the Office of Human Resources will:

- Continue to integrate advanced computing techniques into HR programs;
- Make more aggressive use of alternative recruitment processes;
- Seek DEU authority;
- Assimilate more accountability, responsibility, and quality into all HR processes;
- Migrate NCUA's personnel processing from GSA's Personnel Information Resources System (PIRS), to their new Comprehensive Human Resources Integrated System (CHRIS); and,
- Position the agency to more effectively use its human resources in the future.

The 2000 goal for agency turnover is 9% or less. The 1999 agency-wide rate is projected to be 7.7%. The low turnover rate seems to indicate that 1999 quality of life and pay initiatives achieved the desired effect.

Again, actual performance exceeds the goal. The goal remains 9% for several reasons:

- 1999 was a particularly good year, perhaps because of the pay increases early in the year. Normally, the positive impact of such increases wanes over time.
- NCUA historic data, and data for other agencies with high travel requirements, indicates anything under 10% turnover is good.
- A certain amount of turnover is inevitable ( retirements) and other turnover, within limits, is desirable (examiners leaving to take jobs in the credit union industry.)

What is considered to be acceptable turnover will vary by grade and position. OHR will address these differences in their operating plan.

To maintain turnover within acceptable limits NCUA plans to:

- Improve the merit promotion process;
- Improve NCUA's total compensation system;
- Increase NCUA staff awareness of family friendly programs; and,
- Increase use of telecommuting.

### **Use Technology Effectively**

NCUA's information technology services mission is:

**To provide agency staff with quality IT products and services that foster efficiency in agency operations and support the mission of the agency. We will provide our outside customers with quality products and easy to use systems that deliver useful, accurate, and timely information and data.**

Strategic goals are as follows:

- **Strategic Goal 1:** Continue to maintain and enhance a stable and secure network computing structure which is better, faster, and more cost effective.
- **Strategic Goal 2:** Enhance NCUA's ability to organize and manage information and make it easily available to both internal and external customers. Use information systems to enhance staff productivity and ease administrative burden.
- **Strategic Goal 3:** Keep pace with expanding technology while providing staff with smoothly introduced, user-friendly tools.

## **Budget Information**

### **Comparison between 1999 and 2000 Budget**

When reading the charts that follow on pages 33-36, please keep in mind that as 2000 goals differ from those of 1999, it is difficult to compare the two budgets when arrayed using the agency's strategic goals. For example:

- **Examination** is most similar, but it now includes functions previously included under **Compliance** and **Corporates**.
- **IT**, which was included under **Examination**, is now a separate category.
- **Innovation** is a new category and includes some time that previously would have been allocated to **Examination** and **Regulation**.
- **Access** is a new category which includes **CDCU** (a separate category in 1999), examiner time, regional office Division of Insurance time, etc. previously included under **Examination**.

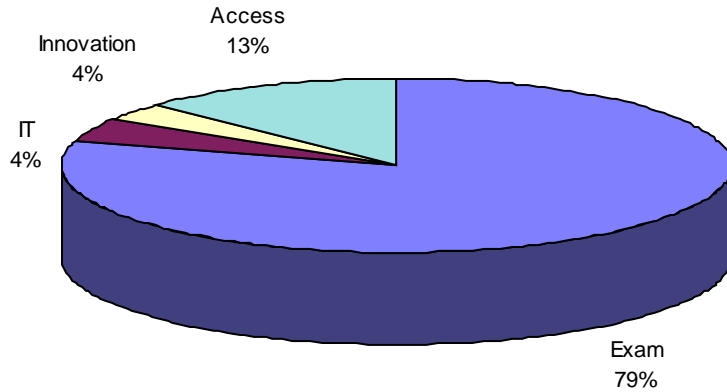
## Budget Information

### 2000 Budget

#### 2000 BUDGET RESULTS

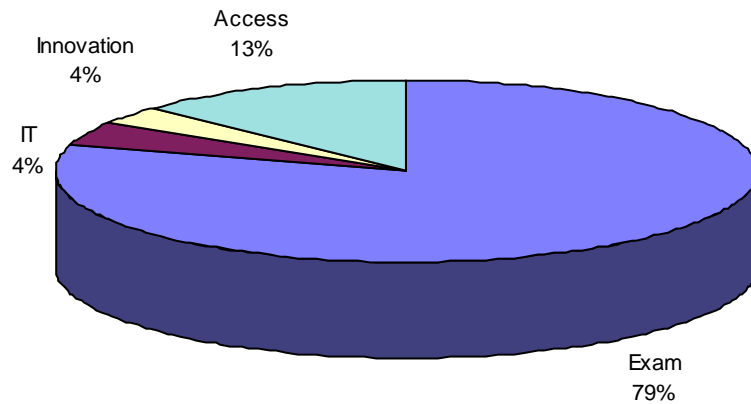
##### FTE's

	Exam	IT	Innovation	Access	Total
<b>FTE's</b>	<b>835.73</b>	<b>42.88</b>	<b>37.54</b>	<b>132.92</b>	<b>1,049.07</b>
<b>% FTE's</b>	<b>79.66%</b>	<b>4.09%</b>	<b>3.58%</b>	<b>12.67%</b>	<b>100.00%</b>



#### DOLLARS (in millions)

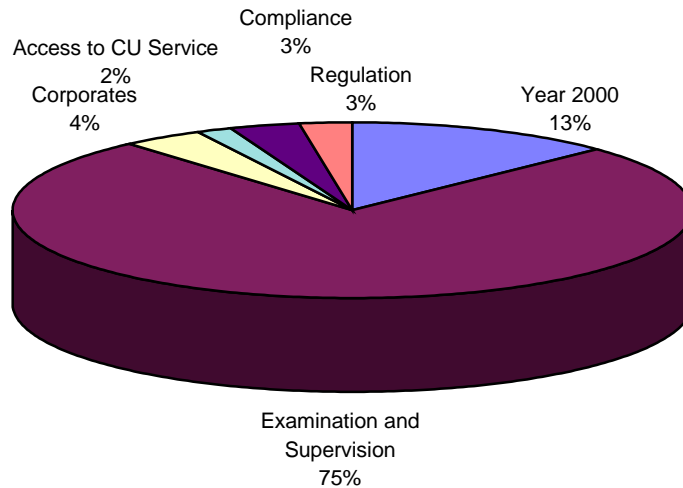
	Exam	IT	Innovation	Access	Total
<b>Dollars</b>	<b>\$106.90</b>	<b>\$6.23</b>	<b>\$4.80</b>	<b>\$17.00</b>	<b>\$134.94</b>
<b>% Dollars</b>	<b>79.22%</b>	<b>4.62%</b>	<b>3.56%</b>	<b>12.60%</b>	<b>100.00%</b>



## 1999 Budget Displayed Using 1999 Goals

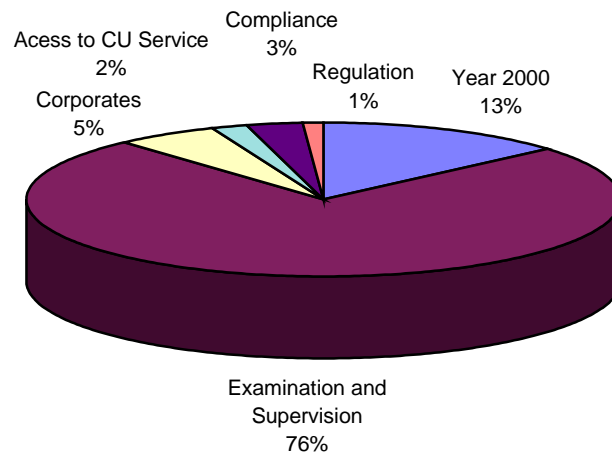
### 1999 FTE's

	Year 2000	Examination and Supervision	Corporates	CDCU	Compliance	Regulation	Total
<b>FTE's</b>	<b>131.00</b>	<b>787.44</b>	<b>40.14</b>	<b>18.52</b>	<b>31.76</b>	<b>27.30</b>	<b>1,036.15</b>
<b>% FTE's</b>	<b>12.64%</b>	<b>76.00%</b>	<b>3.87%</b>	<b>1.79%</b>	<b>3.06%</b>	<b>2.63%</b>	<b>100.00%</b>



### 1999 Dollars (in millions)

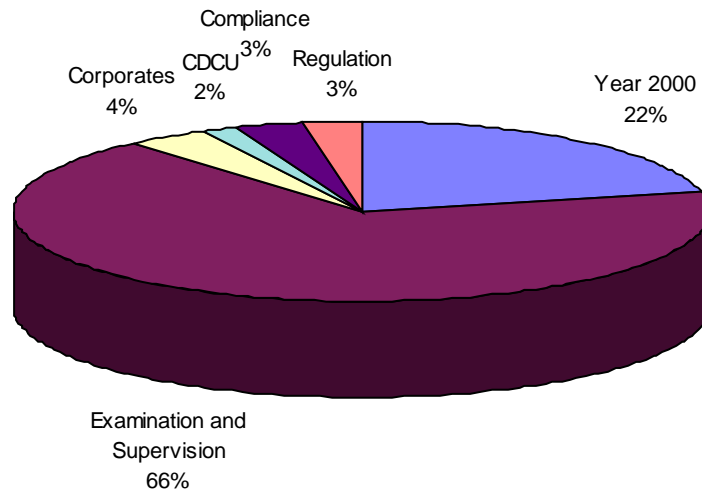
	Year 2000	Examination and Supervision	Corporates	CDCU	Compliance	Regulation	Total
<b>Dollars</b>	<b>\$16.39</b>	<b>\$91.01</b>	<b>\$6.53</b>	<b>\$2.59</b>	<b>\$3.78</b>	<b>\$1.22</b>	<b>\$121.53</b>
<b>% Dollars</b>	<b>13.49%</b>	<b>74.89%</b>	<b>5.38%</b>	<b>2.13%</b>	<b>3.11%</b>	<b>1.00%</b>	<b>100.00%</b>



## 1999 Actual Displayed Using 1999 Goals (As of December 31, 1999)

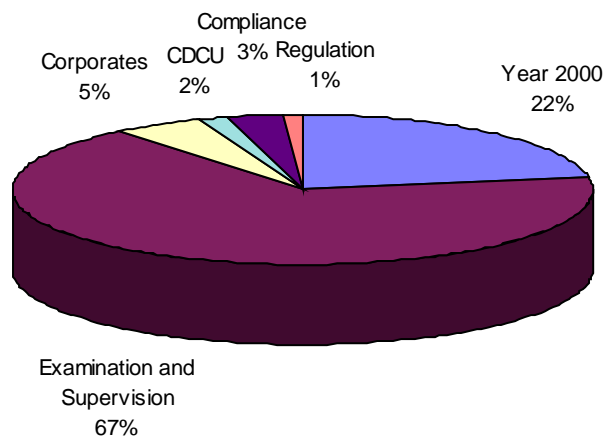
### 1999 FTE's

	Year 2000	Examination and Supervision	Corporates	CDCU	Compliance	Regulation	Total
<b>FTE's</b>	<b>203.33</b>	<b>629.39</b>	<b>35.20</b>	<b>15.74</b>	<b>28.24</b>	<b>26.83</b>	<b>938.73</b>
<b>% FTE's</b>	<b>21.66%</b>	<b>67.05%</b>	<b>3.75%</b>	<b>1.68%</b>	<b>3.01%</b>	<b>2.86%</b>	<b>100.00%</b>



### 1999 Dollars (in millions)

	Year 2000	Examination and Supervision	Corporates	CDCU	Compliance	Regulation	Total
<b>Dollars</b>	<b>\$18.12</b>	<b>\$54.96</b>	<b>\$4.12</b>	<b>\$1.43</b>	<b>\$2.53</b>	<b>\$0.85</b>	<b>\$82.01</b>
<b>% Dollars</b>	<b>22.10%</b>	<b>67.02%</b>	<b>5.03%</b>	<b>1.74%</b>	<b>3.08%</b>	<b>1.04%</b>	<b>100.00%</b>

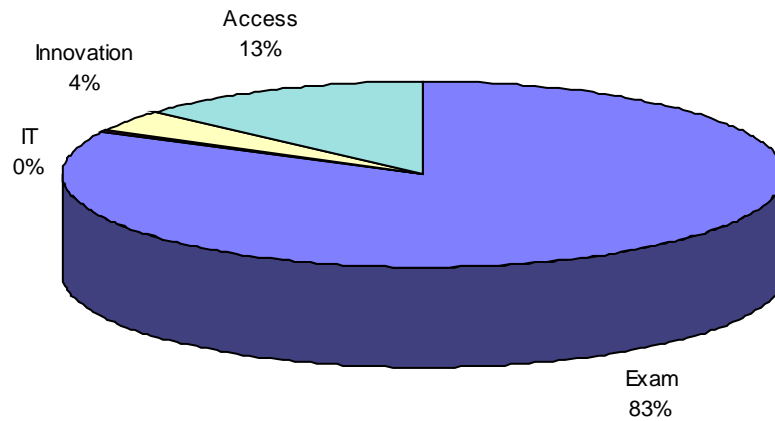


**1999 Actual Displayed Using 2000 Goals (As of December 31, 1999)**

**1999 ACTUAL RESULTS**

**FTE's**

	Exam	IT	Innovation	Access	Total
<b>FTE's</b>	<b>787.30</b>	<b>2.06</b>	<b>35.81</b>	<b>128.00</b>	<b>953.18</b>
<b>% FTE's</b>	<b>82.60%</b>	<b>0.22%</b>	<b>3.76%</b>	<b>13.43%</b>	<b>100.00%</b>



**DOLLARS (in millions)**

	Exam	IT	Innovation	Access	Total
<b>Dollars</b>	<b>\$94.47</b>	<b>\$0.25</b>	<b>\$4.30</b>	<b>\$15.36</b>	<b>\$114.37</b>
<b>% Dollars</b>	<b>82.60%</b>	<b>0.22%</b>	<b>3.76%</b>	<b>13.43%</b>	<b>100.00%</b>

